



CITY OF LODI COUNCIL COMMUNICATION

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AGENDA TITLE: Discussion and Direction Regarding Adjusting Water and Wastewater Rates

MEETING DATE: February 18, 2004

PREPARED BY: Public Works Director

RECOMMENDED ACTION: That the City Council direct staff on the issues described below in preparation for adjusting water and wastewater rates.

BACKGROUND INFORMATION: Water and wastewater rates were last adjusted in 2001 to fund a major infrastructure replacement program. Rate increases were implemented in two steps. Three significant expenses were not included at that time, which need to be addressed. Staff needs direction on these items in order to calculate the necessary rate adjustments. Action on wastewater rates is needed in the next month or so in order to complete the financing for the Phase 2 project which is underway. Action on water rates should also take place in a timely manner.

Water

The first major item is in the water utility - the 2003 water purchase contract with the Woodbridge Irrigation District. This contract, which costs \$1.2 million per year, began in the second quarter of this fiscal year. At the time of adoption, staff indicated a rate increase would be necessary and planned to incorporate this action with discussion on how to utilize this water. However, due to various workload and other delays, this discussion is not yet ready to occur. Yet, the financial pressure on the water utility from this contract and the PCE/TCE issue is such that a rate increase should not be delayed.

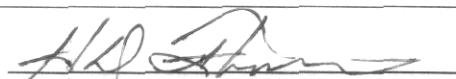
Annual revenue from water sales is approximately \$5.68 million. The annual cost increase of \$1.2 million represents an additional gross revenue need of 24%. An option of lowering the General Fund in-lieu tax transfer from 12% to 10% would reduce the increase to 21% and keep the General Fund revenue essentially at current levels. This would be consistent with past practice and allows the amount to automatically adjust with growth but does not unduly add to the general fund when rates are increased for some major program. This option, along with other items presented below, is summarized in Table 1. Another way to accomplish this would be to set a base figure and provide some growth factor independent of the rate structure.

Wastewater

The State-mandated White Slough Water Pollution Control Facility improvements are being funded through certificates of participation which will increase annual debt service requirements by approximately \$2 million. In addition, operating costs will increase with the additional improvements.

Staff and our consultants are developing a cost and revenue model that brings these factors together and presented a preliminary version to the City Council in October 2003. The model is still being refined as we proceed on the 2004 financing, including analysis of required revenue/expense coverage ratios. The two outstanding debts have different criteria on how coverage and "additional bonds test" are calculated and all must be satisfied in order to issue the Phase 2 project COP's. Our financial consultants are recommending a healthy coverage ratio rather than minimum levels in order to obtain the best possible interest rates. These

APPROVED:


H. Dixon Flynn, City Manager

requirements, along with unavailability of the low-interest State Revolving Loan fund, are also driving up the recommended rate increases.

The rate increase shown in Table 1 is for April 2004 with another in 2005 assuming we can meet the required additional bonds test; if not, we will need one larger increase this year. A third increase would occur in 2006, but staff is recommending this not be adopted at this time as the actual amount will depend on the Phase 3 project final costs and financing. Staff will bring this item back to the Council at the appropriate time, along with other recommendations concerning rate structure, as discussed in the October 2003 shirtsleeve session.

An option similar to water concerning the in-lieu transfer exists for wastewater and is also summarized in Table 1. A similar decrease in the following year's transfer would occur with future rate increases.

In addition to wastewater service rates, the White Slough Water Pollution Control Facility improvements also include capacity for future growth. Consistent with past practice, a portion of the costs have been allocated to "growth" and as described in the October 2003 shirtsleeve session, staff proposes to combine the "capacity" fee, currently charged with building permits, into the wastewater impact mitigation fee (IMF) program. The current capacity fee for a 2-bedroom home is \$2,099. The current wastewater IMF is \$544/acre or \$108.80 assuming five homes per acre. The new combined fee, including the White Slough project increase, is approximately \$3,600 per 2-bedroom home. Making these modifications will require changes to the City Code, which will be presented at later meeting.

Water/Wastewater – PCE/TCE

The cost of PCE/TCE litigation and investigative work has affected the water fund and could affect the wastewater fund. While nearly all the costs have been covered by water fund balance and the Lehman financing, these sources have been exhausted. We still have ongoing costs, and rough estimates for technical work needed to meet State and Federal requirements in designing a complete cleanup program are in the \$7 million and up range. While we anticipate that much of this cost will eventually be recovered, we still need funding to make progress until that recovery occurs.

As mentioned above, the water fund has been the source for City funding on this issue since the water supply is at risk. However, given the alleged potential for City liability is partly due to the wastewater system, it would be reasonable to share this cost between the two enterprises. Since neither fund has substantial cash balance, staff feels it would be prudent to include some allowance in the rates for these expenses and is suggesting for discussion purposes 10% in both water and wastewater which would provide approximately \$1 million annually.

Low-Income Discount Program

The City's current discount for qualified low-income water and wastewater customers is 10%. These are customers who are eligible for certain Social Security payments. Under a separate Council item, staff is recommending that the eligibility criteria be broadened and made consistent with other electric utility programs. However, that action does not include establishing the actual discount, which is the subject of this item. While this is not a significant revenue issue and thus is not included as one of the three significant items driving the recommended rate adjustment it should be included in our calculations. Staff feels it is appropriate to consider establishing a meaningful discount at the same time rates are adjusted.

A 20% discount on both water and wastewater would largely negate the effects of the proposed rate increases. The revenue impact at this percentage with the expanded eligibility criteria is estimated at roughly \$95,000 annually and should be included in the rate model. Assuming the recommended ordinance is adopted, the discount rate would be set by resolution. Staff proposes to also present this at the meeting when rate adjustments are considered.

Summary

The following table summarizes the adjustments discussed with two options – one under current policies, the other with the transfer reduced as noted above. The intent of the summary is to provide an approximation of the rates with the adjustments described. The new rates are not final numbers and the adjustments would apply to the total bill and include all customers including septic haulers. Note that the reduced in-lieu percentages changes depending on the magnitude of the rate increase in order to keep the transfer at current levels. With Option 1, the combined bill for water and wastewater for a 2-bedroom home would increase by approximately \$10.13 per month, and under Option 2, the total increase is \$8.82 per month. Rates charged by other agencies are attached for comparison.

Table 1 – Summary of Water/Wastewater Rate Adjustments – July 2004

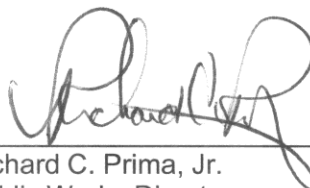
	Option 1 – Current Policy (12% in-lieu)			Option 2 – reduced in-lieu (in-lieu as noted)		
	% Increase	2-Br rate \$/mo. increase new total		% Increase (new in-lieu)	2-Br rate \$/mo. increase new total	
Water	Current Rate: \$16.22					
Water – WID purchase	24%	\$3.89 \$20.11		21.3% (10%)	\$3.45 \$19.67	
Water – PCE/TCE	10%	\$1.62 \$17.84		8.8% (11%)	\$1.43 \$17.65	
Water Combined	34.0%	\$5.51 \$21.73		29.6% (9%)	\$4.80 \$21.02	
Wastewater	Current Rate: \$12.97					
Wastewater – Improvements	25%	\$3.24 \$16.21		22% (10%)	\$2.85 \$15.82	
Wastewater – PCC/TCE	10.6%	\$1.37 \$14.34		9.4% (11%)	\$1.22 \$14.19	
Wastewater Combined	35.6%	\$4.62 \$17.59		31.0% (9%)	\$4.02 \$16.99	

Direction

Staff is requesting direction on the following items so as to reduce the number of variables that would be considered in calculating a recommended rate adjustment:

- Should the in-lieu transfer be maintained per policy or reduced as described?
- Should we include an amount for the PCE/TCE issue, and if so, how much?
- What should the low-income discount be?

FUNDING: Not applicable.



Richard C. Prima, Jr.
Public Works Director

RCP/pmf

cc: Vicky McAthie, Finance Director

Monthly Rate Comparisons

<u>Other San Joaquin County Agencies:</u>			
Wastewater Rates:			
		Updated	Basis
Linden CWD	\$19.70	1-04	all SF resid.
Stockton	\$18.80	1-04	all SF resid.
Country Club SD	\$25.30	1-04	all SF resid.
Lathrop	\$18.39	1-04	all SF resid.
Tracy	\$22.25	1-04	all SF resid.
Escalon	\$11.32	1-04	all SF resid.
Manteca	\$23.48	1-04	all SF resid.
Lockeford CSD	\$11.80	1-04	all SF resid.
Ripon	\$13.82	1-04	all SF resid.
Woodbridge SD	\$14.70	1-04	3 Bedroom
Low	\$11.32		
Average	\$17.96		
High	\$25.30		
Lodi	\$16.23		3 Bedroom

<u>State of California - FY 01/02 Survey Report -</u>			
Wastewater Rates:			
516 agencies reporting			
Monthly Rates - All		Adv. Secondary	Tertiary
Low	\$4.25	\$7.13	\$5.90
Median	\$17.43	\$20.25	\$19.93
Average	\$20.46	\$21.97	\$22.84
High	\$118.88	\$57.00	\$76.17
Lodi	\$16.23 (3 Bedroom)		

<u>Black & Veatch - Statewide surveys</u>		
	2002 Wastewater	2003 Water
	526 agencies	459 agencies
Monthly Rates:		
Low	\$5.00	\$7.50
Median	\$16.50	\$30.93
Average	\$20.17	\$30.33
High	\$187.98	\$112.60
Lodi (3 Bedroom)	\$16.23	\$19.45

Water Rates as of January 2004

City	Base Charge	Water Charge	Total for typical residence	Comments
Escalon				
Metered	\$11.29 /mo.	\$0.8185 /1000 gal. \$0.6122 /100 cu. ft.	\$23.62 /mo.	\$0.9004/1,000 gals. for 50,000-80,000 gal., greater than 80,000 gal. \$0.9904/1000 gal.
Lathrop				
Metered	\$9.71 /mo.	\$1.5100 /1000 gal. \$1.1295 /100 cu. ft.	\$32.36 /mo.	
Manteca				
Metered	\$13.70 /mo.	\$0.65 /100 cu. ft.	\$29.10 /mo.	Water charge is \$0.85/100 cu. ft. for amount over 2,000 cu. ft. User tax of \$2.35 added to all accounts.
Ripon				
Flat Rate	\$19.59 /mo.	n/a	\$19.59 /mo.	Lot size up to 10,000 SF.
Metered	\$14.24 /mo.	\$1.000 /100 cu. ft.	\$20.29 /mo.	Base charge includes first 1400 cu. Ft.
Stockton (City)				
Metered	\$14.20 /mo.	\$0.690 /100 cu. ft.	\$30.28* /mo.	\$0.59/100 cu. ft. for amount over 30,000 cu. ft. plus 8% user tax.
Tracy				
Metered	\$9.85 /mo.	\$0.85 /100 cu. ft.	\$27.61 /mo.	Water charge increases to \$1.20 over 1,200 winter/1,800 summer cu. ft., \$1.40 over 1,900w/2,900s cu. ft., \$1.50 over 19,000w/28,700s cu. ft.
Average				
Flat Rate	NA		NA	
Metered	\$12.17 /mo.	\$0.92 /100 cu. ft.	\$27.21 /mo.	rates per 1000 gal. adjusted to 100 cu. ft.
Lodi				
Flat Rate	\$19.45 /mo.	n/a	\$19.45 /mo.	ranges from \$13.51 for 1 bedroom to \$40.35 for 7 br's.
Metered	\$11.43 /mo.	\$0.524 /100 cu. ft.	\$21.94 /mo.	Base charge does not include any water allowance.

Typical Residence Criteria:

		Units (agency affected)
Water Use:	15,000	gallons/month (2,005 cu. ft.)
Parcel Area:	5,000	square feet (Madera, Merced, Ripon, Roseville, Woodland)
Meter Size:	¾"	size of service pipe is typically 1' minimum, meter is usually smaller
Rooms:	6	number (Turlock)
Bedrooms:	3	number (Lodi)
*		user tax added

Ripon, Merced, Woodland, and Roseville meter commercial and have flat rates for residential customers. Roseville is installing meters at all connections and will be metering all customers in the future.

City	Base Charge	Water Charge	Total for typical residence	Comments	Updated
Davis					
Metered	\$8.68 /mo.	\$0.63 /100 cu. ft.	\$21.31 /mo.	Water charge increases to \$0.68/100 cu. ft. for amount over 3600 cu. Ft.	Jan-04
Escalon					
Metered	\$11.29 /mo.	\$0.8185 /1000 gal. \$0.6122 /100 cu. ft.	\$23.62 /mo.	\$0.9004/1,000 gals. for 50,000-80,000 gal., greater than 80,000 gal. \$0.9904/1000 gal.	Jan-04
Lathrop					
Metered	\$9.71 /mo.	\$1.5100 /1000 gal. \$1.1295 /100 cu. ft.	\$32.36 /mo.		Jan-04
Madera					
Flat Rate	\$13.62 /mo.	n/a	\$13.62 /mo.	For 1st 5,000 sq. ft. lot. Increases \$0.16 per additional 100 sq. ft.	Jan-04
Metered	\$2.37 /mo.	\$0.5156 /100 cu. ft.	\$12.71 /mo.		Jan-04
Manteca					
Metered	\$13.70 /mo.	\$0.65 /100 cu. ft.	\$29.10* /mo.	Water charge is \$0.85/100 cu. ft. for amount over 2,000 cu. ft. User tax of \$2.35 added to all accounts.	Jan-04
Merced					
Flat Rate	\$21.75 /mo.	n/a	\$21.75 /mo.	\$21.75 for first 10,000 SF, per table up to \$72.87 for 46,000 SF	
Metered	\$21.75 /mo.	\$0.562 /100 cu. ft.	\$21.75 /mo.	Base charge includes water allowance up to amount under quantity rate (3,000 cu. Ft. for ¾").	Jan-04
Ripon					
Flat Rate	\$19.59 /mo.	n/a	\$19.59 /mo.	Lot size up to 10,000 SF.	Jan-04
Metered	\$14.24 /mo.	\$1.000 /100 cu. ft.	\$20.29 /mo.	Base charge includes first 1400 cu. Ft.	Jan-04
Roseville					
Flat Rate	\$15.60 /mo.	n/a	\$15.60 /mo.	For single family lot between 4,901 and 8,900 SF; per table for other sizes	Jan-04
Metered	\$10.35 /mo.	\$0.22 /100 cu. ft.	\$16.53 /mo.	Water charge increases to \$0.44/100 cu. ft. for 1,200-5,000; \$0.66/100 cu. ft. for >5,000 cu. ft.	Jan-04
Stockton (City)					
Metered	\$14.20 /mo.	\$0.690 /100 cu. ft.	\$30.28* /mo.	\$0.59/100 cu. ft. for amount over 30,000 cu. ft. plus 8% user tax.	Jan-04
Tracy					
Metered	\$9.85 /mo.	\$0.85 /100 cu. ft.	\$27.61 /mo.	Water charge increases to \$1.20 over 1,200 winter/1,800 summer cu. ft., \$1.40 over 1,900w/2,900s cu. ft., \$1.50 over 19,000w/28,700s cu. ft.	Jan-04
Turlock					
Flat Rate	\$13.45 /mo.	n/a	\$13.45 /mo.	\$7.05 for 0 to 5 rooms, \$7.90 for 6-8, \$8.70 over 8 plus charge based on parcel area (\$5.55 up to 5,500 SF, \$0.85 for each add'l 2000 SF)	Jan-04
Metered	\$9.45 /mo.	\$0.47 /1000 gal. \$0.352 /100 cu. ft.	\$16.50 /mo.	Water charge decreases to \$0.40 over 50,000 gallons, \$0.17 over 150,000 gallons	Jan-04
Vacaville					
Metered	\$16.49 /mo.	\$0.72 /100 cu. ft.	\$33.02 /mo.	Water charge increases to \$1.00 over 1,200 cu. ft. 15% discount for senior citizens on base and consumption charge.	
Woodland					
Flat Rate	\$16.09 /mo.	n/a	\$17.54* /mo.	For single family lot 5,000 to 10,000 SF; \$13.05 under 5,000 SF, \$19.00 over 10,000 SF (9% user tax reviewed every other year.)	Jan-04
Metered	\$1.24 /mo.	\$0.99 /100 cu. ft.	\$22.99* /mo.		
Yuba City					
Flat Rate	\$26.38 /mo.	n/a	\$26.38 /mo.		Jan-04
Metered	\$14.09 /mo.	\$0.881 /100 cu. ft.	\$17.66 /mo.	Includes 1,600 cu. ft. minimum quantity	
Average					
Flat Rate	\$15.81 /mo.	n/a	\$15.99 /mo.		
Metered	\$11.01 /mo.	\$0.667 /100 cu. ft.	\$23.50 /mo.	rates per 1000 gal. adjusted to 100 cu. ft.	
Lodi					
Flat Rate	\$19.45 /mo.	n/a	\$19.45 /mo.	ranges from \$13.51 for 1 bedroom to \$40.35 for 7 br's.	
Metered	\$11.43 /mo.	\$0.524 /100 cu. ft.	\$21.94 /mo.	Base charge does not include any water allowance.	

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